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RUEHBR/AMEMBASSY BRASILIA 9945
RUEHBU/AMEMBASSY BUENOS AIRES 7166
RUEHBY/AMEMBASSY CANBERRA 0125
RUEHCV/AMEMBASSY CARACAS 4214
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SUBJECT: BOLIVIA: IMPLICATIONS OF APEX SILVER SELLOUT

Classified By: A/DCM Mike Hammer for reasons 1.4 b,d

¶1. (C) Summary: Charge met with executives from Denver-based Apex Silver and its subsidiary Minera San Cristobal on December 5 to discuss the future of Bolivia's largest mining operation. High taxes, the fall in metals prices, and Apex's unfavorable loan structure have caused a drop in Apex stock prices from a high of 23.75 April 2006 to the current price of 0.66. Apex's debilitating financing structure, including a hedge on silver prices that has cost the company millions of dollars, was influenced by banks' unwillingness to invest in a country with Bolivia's risk-profile. Apex has also suffered from the Morales' administration's knee-jerk anti-American and anti-capitalist tendencies. End summary.

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Turning Japanese
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¶2. (C) Sumitomo Corporation, which is currently 35 percent owner of the San Cristobal mine, is in negotiations to buy the remaining 65 percent of the mine from Apex, with Apex to continue as the mine's operator. Local Minera San Cristobal executives are already seeing the results of the projected change in ownership. While the mine was majority American-owned, no high-level national officials under the Evo Morales government would visit the mine (not even Mining Minister Echazu, who indicated to San Cristobal officials that he was interested in a visit but that it would endanger his job.) Now that the mine will soon be entirely Japanese, Echazu has informed the mine's executives that he and President Morales are interested in a visit.

¶3. (C) Minera San Cristobal President Gerardo Garrett relayed a conversation he had with Bolivian Mining Director General Freddy Beltran, who said, "It's good that you're going to become Japanese." Minera San Cristobal executives anticipate

that no longer being a U.S. company will help them on two lobbying issues: continuation of the CEDEIMS import tax rebate plan, which may be threatened under Article 351.4 of the Movement Toward Socialism (MAS) draft Constitution; and modification of a currency exchange adjustment accounting rule which is currently costing the mining industry a lot of money.

14. (C) San Cristobal executives are also involved in drafting proposed text for the mining law that is expected to be passed after (and if) the draft MAS constitution is approved by referendum in January 2009. The mining industry hopes that some of the vaguely threatening language in the draft constitution can be neutralized by more business-friendly text in the mining law (Note: This optimism seems more a result of wishful thinking, since the same socialist ideologues who drafted the MAS constitution will have a hand in the mining law. End note.) Sumitomo will also lobby for the removal of the additional 25 percent surtax that only San Cristobal is big enough to pay, although Apex VP Jerry Danni noted wryly that with the current low price of minerals, the mine isn't making enough money to have to pay the surtax. Danni added that as of now, only the Bolivian and Potosi regional governments have made money from San Cristobal mine.

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Non-Yankee Investment Welcome
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15. (C) The proposed investment in the Mutun iron deposit (in Santa Cruz department on the border with Brazil) that was touted by President Morales as a 2 billion dollar boost to the Bolivian economy is still in the exploration stages, and the general opinion in the Bolivian mining community is that the project is many years from starting (if it ever gets off the ground: the government is having trouble delivering on its contractual promises of cheap gas supplies, an improved transportation network, and land reform to allow surface access.) The joint venture between the Bolivian state mining entity COMIBOL and South Korean state mining company Kores to reopen an old copper mine seems to be progressing, but it too is in the exploration stages and the government's announcements about future investments are therefore premature. Morales's enthusiasm for these two potential investments is in stark contrast to his animosity towards U.S. mining interests, despite the fact that San Bartolome and San Cristobal are currently providing jobs and royalties in one Morales stronghold, the poor and mostly-indigenous altiplano.

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Shaking the Dust from Their Steeltoes
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16. (C) Apex Silver, which plans to return to its core competency as an exploration and development company (possibly after declaring bankruptcy), has a number of promising concessions in Bolivia, but Corporate Vice President Jerry Danni was adamant that the company is not interested in investing in Bolivia at this time: "With some of the highest taxes in the world and the current political instability, plus what happened with San Cristobal, our shareholders wouldn't look too kindly on our putting more money into Bolivia." Danni pointed out that there is "nothing in the pipeline" in terms of international investment in Bolivian mining, adding that Idaho-based Coeur's investment in the San Bartolome mine in Potosi is suffering due to low silver prices and Denver-based Newmont's gold operations in Oruro are scheduled to shut down in the next two years. (Note: Coeur executives have confided to us in the past that if they had to do it over again, they would not invest in San Bartolome because of the difficulties in dealing with the Bolivian government, the tax increases, and the legal instability. End note.)

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Comment
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17. (C) At a time when mineral prices have dropped precipitously, the Bolivian government is scrambling to prop up non-tax-paying cooperativist miners while alienating international investment. The Morales administration's anti-American bias creates an uneven playing field, although currently not even the favored (non-U.S.) nations are showing much interest in investing in Bolivia. Sumitomo Corporation has opened a small office in La Paz to handle San Cristobal-related issues and to look into the possibility of investing in lithium extraction from the Uyuni Salt Flats in Potosi. South Korean exploration is ongoing but small-scale, and Jindal's iron project is stalled at the exploration stage. Bolivia has a five-hundred-plus year history of mining and extensive mineral reserves. At a time when Bolivia could most use money and jobs, the government's policies have driven investors to other countries in the region. In fact, Peruvian President Alan Garcia recently thanked Bolivia for its mining regime and the resulting inflow of investors to Peru. End comment.

LAMBERT